



**STATE INVESTMENT BOARD
BOARD ADOPTED POLICIES**

POLICY NUMBER: 2.12.100

EFFECTIVE DATE: 7/18/02

TITLE: Judicial Retirement Account

SUPERSEDES: 7/1/02

BOARD ADOPTION: 7/18/02

APPROVED:

A handwritten signature in black ink, appearing to read 'Gregory Bruesch', is written over a horizontal line.

BACKGROUND:

The Judicial Retirement Account (JRA) is an Internal Revenue Code Section 401(a) retirement fund for state judges. The Administrative Office of the Courts (AOC) serves as trustee of the Fund. Through an interagency agreement, the AOC has requested that the State Investment Board (SIB) provide investment management, investment oversight, and investment options for the Fund and to perform certain trustee functions related to the assets. Through this agreement, the SIB has authority over selection and management of the investment options and may delegate responsibilities to its executive director and external investment advisors. The Department of Retirement Systems (DRS) has responsibility for program administration, investment accounting, participant record keeping, education, and communication.

As a 401(a) tax deferred plan, the JRA is offered as a retirement plan to employees. Participants select the amount they wish to contribute per pay period up to a maximum amount. Participants must also select and manage their asset allocation among the various investment options. Since the JRA Fund is a retirement plan, the proper selection of options or asset allocation is critical for long-term growth of the participant's funds.

PURPOSE:

This document outlines the investment policy for the assets of the JRA Fund. It is designed to articulate the SIB's investment objectives and risk tolerance for the investment options, in accordance with RCW 43.33A.110. This document formulates the SIB's policies and guidelines on: 1) the number and type of options; 2) the investment style and strategy for each specific investment option; and, 3) prudently monitoring and evaluating the performance and risk of the investment options.

POLICY:

Implementation

The Board has established numerous policies and procedures for the investment staff to ensure consistent and efficient handling of the investment duties. The Board regularly reviews performance and costs of all funds under its control. On a semi-annual basis, the Board reviews all costs of the SIB, including investment management and external service providers. Any direct costs related to the management of fund assets will be deducted from the return of the various investment options. Additionally, under RCW 43.33A.160, the SIB is allowed to deduct from the funds under its control the fund's proportional share of the SIB's operating expenses, based on its assets under management.

Standard of Care

The Legislature has established a standard of care for investment of all funds under the control of the SIB in RCW 43.33A.140. Additionally, the Board and its staff must comply with other state laws, such as the Ethics In Public Service Act, Chapter 42.52 RCW, as it makes its investment decisions and seeks to meet the investment objectives listed below.

Investment Objectives

In accordance with RCW 43.33A.110, the investment objectives of all assets under the control of the SIB, which include the investment options in the JRA Fund, are seeking the maximum return at a prudent level of risk. The SIB has a fiduciary duty to ensure that the JRA Fund offers a balance of options that will allow employees to build an asset allocation suitable for a range of participants from new employees to those in retirement. The investment options should cover a broad spectrum from low-risk/low-return to high risk/high return funds. The majority of the options should offer participants the opportunity to seek long-term capital appreciation.

Based on this requirement, the order of the objectives shall be:

1. Provide a diverse set of investment options to allow participants to invest their funds to maximize their future capital accumulation for retirement at their personal level of risk tolerance.
2. Provide an adequate number of options. The number of options should be broad enough to offer a comprehensive set of options, yet be limited to make the JRA Fund simple to understand and offer the participant the ease of creating a diverse portfolio.
3. Minimize expenses.
4. Ensure that each investment option maintains its investment objectives and investment strategy as described to participants.

5. Provide investment options that will not compromise the participant's confidence in the JRA Fund.

In keeping with these objectives, to be an efficient and cost effective investment menu, it must be understood that not every participant's unique desire or request can be met. Participants' requests for specialized funds or highly focused investment strategies are best obtained through their own personal investments. This list of options is designed to provide the best menu of investment options for a broad group of participants and cannot be all things to each individual person.

Risk Constraint Standards

1. All assets under management by the SIB are to be invested to maximize return at a prudent level of risk in accordance with the requirements of RCW 43.33A.110 and RCW 43.33A.140. Within the plan, the SIB will offer investment options that are suitable for long-term retirement investment for individuals.
2. Ensure that each investment option is within its prescribed level of risk.

Investment Performance Objectives

Since each participant is responsible for the design and selection of their investment portfolio, the overall JRA Fund does not have an aggregate investment performance objective. However, each investment option described below will have a specific investment performance objective.

Asset Allocation and Investment Options

The SIB will offer the investment options listed below for the JRA Fund. The SIB will adjust the investment management of the options, as the SIB deems necessary. It is anticipated the menu of investment options will closely mirror those provided to the state Deferred Compensation Program.

Capital market conditions, management style of investment options, and investment performance are dynamic, not static. Consequently, the SIB staff will review the performance and management of the options quarterly. For those options managed internally by the SIB, the Board has delegated to the executive director the authority to invest the funds according to the procedures established in the SIB Investment Policies & Procedures, Volume 3.

Within the limit or the number of options, the SIB will strive to offer a comprehensive array of options to include, balanced life cycle funds and active and passive management styles.

Investment Options

<u>ASSET CLASS</u>	<u>STYLE</u>	<u>MANAGER</u>	<u>FUND</u>
Stable Value	Guaranteed Investment Contract investments	SIB	Savings Pool
Fixed Income	Active intermediate bond fund	SIB	Bond Fund
Balanced	Balanced equity/debt fund	Calvert Group SIB SIB SIB	Social Investment Balanced Fund Long-Horizon Fund Mid-Horizon Fund Short-Horizon Fund
U.S. Equities	Passive broad market index Passive small cap market index Active large cap value Active large capitalization Active mid-large-cap growth	Barclays Global Investors Barclays Global Investors Fidelity Investments Fidelity Investments Fidelity Investments	U.S. Stock Market Index Fund U.S. Small Stock Index Fund Equity Income Fund Independence Fund Growth Company Fund
Non-U.S. Equity	Active non-U.S. equity	Fidelity Investments	Overseas Fund

Investment Options, Objective, and Style**Savings Pool**

Objective: The Savings Pool seeks to protect principal while generating an income return in excess of short-term U.S. government securities. The fund is expected to maintain a one-dollar net asset value.

Strategy: The fund will invest in high quality Guaranteed Investment Contracts issued by large insurance companies licensed to do business in the state of Washington. The Pool will seek a laddered maturity of contracts, not to exceed seven years, and maintain sufficient short-term liquidity to meet cash flow demands.

Benchmark: N/A

Washington State Bond Fund

Objective: The fund seeks a high level of current income. The fund is expected to meet or exceed the return of the Lehman Intermediate Credit index.

Strategy: The fund will invest in investment grade rated U.S. and dollar denominated non-U.S. fixed income instruments. The average portfolio maturity will range between three to ten years.

Benchmark: Lehman Intermediate Credit Index

Calvert Social Investment Balanced Fund

Objective: A balanced fund that seeks to achieve a total return above the rate of inflation consistent with certain social criteria established by the fund. The fund's one-year return should exceed the median return of a balanced fund peer group.

Strategy: The portfolio will balance between common and preferred stocks, domestic bonds, and short-term instruments. The equity and debt portfolios are managed independently. Both seek investments, which meet stringent social criteria.

Benchmark: Custom blend – 60 percent Russell 3000 and 40 percent Lehman Credit Index.

Long-Horizon

Objective: A balanced fund managed for participants with a long investment horizon. The fund seeks to achieve a maximum long-term rate of return and accepts large fluctuations in the year-to-year return. The fund has a target asset allocation that places the majority of the fund in U.S. and non-U.S. equities.

Strategy: The fund will invest passively in the broad indices that track the U.S. and the non-U.S. equity markets, and an actively managed intermediate duration bond fund, and short-term cash investments. The asset allocation is actively rebalanced to maintain the target mix.

Benchmark: Custom blend matched to the target allocation using the component benchmarks of the Horizon Funds Policy 2.14.100.

Mid-Horizon

Objective: A balanced fund managed for participants with a medium-term investment horizon). The fund seeks to achieve a maximum rate of return and accepts fluctuations in the year-to-year return. The fund has a target asset allocation that places slightly more than half of the fund in U.S. and non-U.S. equities, and just less than half in U.S. fixed income.

Strategy: The fund will invest passively in the broad indices that track the U.S. and the non-U.S. equity markets, and an actively managed intermediate duration bond fund. The asset allocation is actively rebalanced to maintain the target mix.

Benchmark: Custom blend matched to the target allocation using the component benchmarks of the Horizon Funds Policy 2.14.100.

Short-Horizon

Objective: A balanced fund managed for participants with a shorter-term investment horizon. The fund seeks a conservative rate of return, but with only minor fluctuations in the volatility of the year-to-year return. The fund has a target asset allocation that places a majority of the fund in lower risk and return bonds and cash investments, while still investing some in U.S. and non-U.S. equities.

Strategy: The fund will invest passively in the broad indices that track the U.S. and the non-U.S. equity markets, an actively managed intermediate duration bond fund, and short-term cash investments. The asset allocation is actively rebalanced to maintain the target mix.

Benchmark: Custom blend matched to the target allocation using the component benchmarks of the Horizon Funds Policy 2.14.100.

U.S. Stock Market Index Fund

Objective: Passively managed to closely match the return of the Wilshire 5000 index within a tracking error of 20 basis points annually.

Strategy: To replicate the characteristics and performance of the broad U.S. stock market.

Benchmark: Wilshire 5000

U.S. Small Stock Index Fund

Objective: Passively managed to closely match the return of the Russell 2000 index.

Strategy: To replicate the characteristics and performance of the small-capitalization sector of the U.S. equity market.

Benchmark: Russell 2000

Fidelity Equity Income Fund

Objective: The fund seeks both reasonable income and capital appreciation. The fund should place in the top third of equity/income or value oriented large capitalization portfolios.

Strategy: At least 65 percent of the fund will be in income producing common and preferred stocks. Assets can include U.S. and non-U.S. equity and fixed income.

Benchmark: Russell 3000 Value

Fidelity Independence Fund

Objective: The fund seeks long-term capital appreciation. The fund is expected to exceed the annualized return of the S&P 500 and place in the top third of large capitalization U.S. equity portfolios over a full market cycle.

Strategy: The fund invests primarily in large capitalized, well-established common stocks. The fund can invest in both U.S. and non-U.S. equities.

Benchmark: Russell 3000

Fidelity Growth Company Fund

Objective: The fund seeks capital appreciation. The fund is expected to exceed the annualized return of the Russell 3000 growth index and place in the top third of mid to large capitalization portfolios over a full market cycle.

Strategy: The fund will invest in both domestic and foreign equities that exhibit above average earnings growth potential.

Benchmark: Russell 3000 Growth

Fidelity Overseas Fund

Objective: The fund seeks capital appreciation. The fund is expected to exceed the annualized return of the MSCI EAFE index and place in the top third of non-U.S. equity portfolios over a full market cycle.

Strategy: The fund will invest at least 65 percent in non-U.S. securities from a minimum of three different countries. The fund may invest in non-U.S. equities, convertible, and fixed income.

Benchmark: MSCI EAFE

PERFORMANCE REVIEW GUIDELINES AND REPORTING:

Since SIB does not perform investment fund accounting, the specific investment manager will measure investment performance of the external options. Performance of the internal SIB funds

will be reported by the SIB operations staff. The SIB staff will compile and perform a quality check of the returns and report quarterly to the Board and AOC. The quarterly report will demonstrate whether the investment options have met the overall investment objectives and compare each option to its appropriate benchmark. The report will also identify the distribution of the participant's assets among the various options.

RESPONSIBILITIES:

State Investment Board - Responsible for approving the investment policy and setting the investment options, and reviewing the investment performance of the options.

Public Markets Committee - Responsible for reviewing and recommending the investment policy and investment options to the Board. Also, responsible for reviewing the SIB staff's investment management guidelines.

SIB Staff - Responsible for direct management and daily pricing/unitization of some of the investment options, oversight monitoring and evaluating the external investment managers, and preparing and presenting the quarterly investment report. Additionally, staff is responsible for recommending enhancements and changes to the investment policy and investment options to the Public Markets Committee; and, implementing policy, managing the assets, proxy voting, custody account management, advising on participant education, and reporting performance and compliance to the policy for the Public Markets Committee, the Board, and the AOC.

Administrative Office of the Courts - Trustee of the funds with ultimate responsibility for the oversight and management of the assets in the plan.